

APPENDIX A

DECLARATION OF STEPHEN G. HUELS

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of)
)
Joint Application for Transfer of Control)
filed by NorthPoint Communications, Inc.)
and Verizon Communications) CC Docket No. 00-157

**DECLARATION OF STEPHEN G. HUELS
ON BEHALF OF AT&T CORP.**

I. QUALIFICATIONS

1. My name is Stephen G. Huels. My business address is 222 West Adams, Suite 1100, Chicago, Illinois 60606. I am Product Management Vice President for UNE Platform, DSL and Resale Products, AT&T Consumer Services. My responsibilities in my current position include the planning, development, and implementation of AT&T's UNE-P-based products used to enter the local services market and serve residential customers in New York. I am responsible for directing the deployment of AT&T's systems and processes to support market entry in New York. Further, I am responsible for ongoing operational and financial oversight of the UNE-P systems and processes used to provide local residential telephone service in New York.

2. I have been employed by AT&T since 1979 and have held numerous assignments in various AT&T organizations. I assumed my present position on July 1, 1999. For the last 6 years, I have led a variety of product management and engineering teams responsible for planning, implementation, and/or management of AT&T's local services on both a regional and

national level. I have previously held leadership positions in engineering, business sales, and supplier management.

3. I hold a Bachelor of Science in Business Administration degree from Southern Illinois University – Edwardsville and an MBA in Technology Management from the University of Phoenix. I hold a professional designation of Chartered Financial Analyst.

II. VERIZON HAS OBSTRUCTED, AND CONTINUES TO OBSTRUCT, AT&T'S ENTRY EFFORTS IN A MANNER THAT THREATENS COMPETITION FOR VOICE AND DATA SERVICE PACKAGES.

4. It has become apparent that competitors in the local telephone business must offer residential voice and data services together as a package to compete effectively. There has been a dramatic increase in the number of residential customers that desire high-speed data service in addition to voice service, and many consumers prefer to have a single point of contact for all of their communications needs. As a result, there is a growing demand for a combined package of voice and data services.
5. Anticompetitive actions by incumbent local exchange carriers ("ILECs"), such as Verizon, that raise obstructions in the path of competitors seeking to provide such services raise their competitors' costs, and thus discourage local voice entry into the ILECs' other local service markets.
6. Verizon today offers to consumers voice services and the high-speed data services of its affiliate, Verizon Advanced Data, Inc. ("VAD"), over a single line. As would-be competitors remain stalled at the starting gate, and new impediments are placed in their path, Verizon has

been marketing and deploying its voice service and VAD's data services over a single line as a combined offering. It is my understanding from reading the Hazlett Declaration that Verizon has collocated DSLAMs in over 2000 central offices. Further, Verizon announced that it added 71,000 new DSL subscribers in its most recent quarter, bringing its total to 220,000, a 47 percent increase over its first quarter results.

7. AT&T, however, would be unable to offer voice and data services on a single line in Verizon's service territory to any of its residential customers. Although the Telecommunications Act of 1996 created three distinct entry strategies, only a subset of one such strategy enables new entrants like AT&T to proceed rapidly to serve residential consumers on a large-scale, mass-market basis. Resale is problematic because the "avoided cost" margins are too small to make a viable business, and because resellers are only able to replicate the same service the incumbent provides. Facilities-based competition is expensive and time-consuming. AT&T has expended tens of billions of dollars to procure cable assets, and billions more to upgrade them for use in providing telecommunications services, but this strategy still only enables AT&T to reach a fraction of residential consumers. Only unbundled network elements ("UNEs"), and in particular the combination of network elements known as the Platform, or "UNE-P," provide the means for rapid, ubiquitous, mass-market entry. Except in those areas where AT&T operates cable facilities, AT&T would have to depend on UNE-P to provide residential voice and data services over a single line. Without UNE-P, AT&T could not accommodate the growing consumer demand for packaged voice and data service over a single line. Without such a packaged service offering, AT&T and other CLECs cannot hope to succeed, and have no incentive to expand

into other local markets. As a result, consumers in those markets have little or no choice in their voice service provider.

8. The importance of UNE-P to competition in the market for residential voice service is widely acknowledged. The Federal Communications Commission (“FCC”) has expressly recognized the importance of UNE-P to competition in the residential mass market.¹ The New York Public Service Commission (“NY PSC”) relied heavily on Verizon’s progress in providing UNE-P as a basis for supporting grant of its section 271 application.² For its part, Verizon recently claimed that UNE-P now accounts for 38 percent of all competitive lines in New York,³ a figure that, though substantial, probably understates the use of UNE-P in the residential market. Moreover, Verizon has forecasted that the demand for UNE-P in New York will grow to almost 2.4 million lines by 2002.⁴

¹ See Third Report and Order, *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-98, FCC 99-238, ¶ 273 n.543 (rel. Nov. 5, 1999) (“*UNE Remand Order*”).

² See Evaluation of the New York Public Service Commission, *Petition of New York Telephone Company for Approval of its Statement of Generally Accepted Terms and Conditions Pursuant to Section 252 of the Telecommunications Act of 1996 and Draft Filing of Petition for InterLATA Entry Pursuant to Section 271 of the Telecommunications Act of 1996*, CC Docket No. 99-295, at 64-69 (Oct. 19, 1999).

³ See *Application of New York Telephone Company [now Verizon] Pursuant to Section 271 of the Telecommunications Act of 1996*, Connecticut Department of Public Utility Control Docket No. 97-01-23, *Request of Verizon for Track B Certification Pursuant to Section 271 of the Telecommunications Act of 1996*, at 16 (filed July 31, 2000) (as of May, 2000, competitors were serving approximately 2.25 million lines, including 859,000 through UNE-P).

⁴ See *Proceeding on Motion of the Commission to Examine Issues Concerning the Provision of Digital Subscriber Line Services*, New York Public Service Commission Case 00-C-0127, Brief of Rhythms NetConnections, Inc. at 52 (Aug. 15, 2000) (“*Rhythms NetConnections Brief*”) (citing Verizon Response to Rhythms/COVAD Interrogatory 100). Of course, competition will never grow in line with Verizon’s estimates if it continues to use its control over essential facilities to block UNE-P competition.

9. Verizon repeatedly has engaged in an anticompetitive strategy of using its control over essential facilities to prevent UNE-P-based competitors from providing integrated voice and data services through line splitting.⁵ Verizon has refused to comply with basic obligations to provide competitors with access to the crucial network facilities and services that allow them to offer advanced services.

10. Verizon has stalled residential competition through tactics designed to delay the implementation and establishment of necessary operations support system (“OSS”) that would permit voice and data competitive local exchange carriers (“CLECs”) to engage in line splitting. During the course of this year, Verizon did not even seriously entertain facilitating UNE-P with DSL, and took no steps during the DSL Collaborative to start the process of developing OSS to enable line splitting for UNE-P carriers. Months of negotiation in New York on this issue led nowhere. Ultimately, the NY PSC had to order Verizon to facilitate line splitting to get any movement from Verizon on this issue. While claiming to cooperate, Verizon has made little, if any, attempt to offer line splitting in a manner that coincides with how UNE-P is ordered, provisioned and maintained. In the area of the required OSS, Verizon not yet agreed to develop, let alone commence development of, OSS in a manner that accommodates the needs of the CLECs. While feigning cooperation, Verizon has in fact caused significant delays in the implementation of line splitting, leaving CLECs at a significant competitive disadvantage.

11. Verizon also has used VAD to block competitors from providing service over the UNE-P.

⁵ Line splitting by CLECs may involve two carriers, one of which purchases the entire loop to provide voice service and the other of which provides data service pursuant to a commercial

When AT&T submits orders for UNE-P voice service for customers who obtain data services from VAD, Verizon routinely rejects the orders. As a result of Verizon's anticompetitive behavior, AT&T is not able to offer packaged voice and data service offerings, and thus is not in a position today to compete with Verizon.

12. Verizon also has frustrated the ability of data CLECs to secure UNE-P customers who want their service. Rhythms recently estimated that approximately 30 percent of customers interested in its data services are UNE-P customers.⁶ But, because Verizon does not provide the line splitting necessary to permit data CLECs and UNE-P carriers to work together, residential customers seeking to take both voice and data services over the same line currently have no choice but to return to Verizon for voice service. To the extent that customers sign up for long-term contracts for DSL service (whether from Verizon or a data CLEC), the lack of operational support for line splitting means that the customers may unwittingly lock themselves into Verizon's voice service for a similar period.

13. To date, only one state in Verizon's territory, New York, has acted to mandate line splitting. The NY PSC recently recognized the importance of putting an end to Verizon's anticompetitive behavior and requiring Verizon to allow competitors to offer voice and data services on a single line. In a September 20, 2000 Order, it required Verizon to support line splitting no later than March, 2001, so that New York customers can obtain voice and data

arrangement with the voice carrier.

⁶ Rhythms NetConnections Brief at 52.

services over a single line from a Verizon competitor.⁷ However, the NY PSC's written Order has not yet been released, and so AT&T does not yet know the degree to which its need to be able to submit UNE-P orders where DSL is present or added in the same manner in which it currently submits UNE-P orders will be addressed.

14. The ability to submit UNE-P orders seamlessly and efficiently is critical to AT&T and other CLECs' ability to derive benefit from the NY PSC's Order. Any action by Verizon that renders the ordering process more complicated, costly, or time-consuming would greatly impair the CLECs' ability to offer voice and advanced services, and would defeat the purpose of the Order.

III. IN THE NEAR TERM, AT&T MUST ENTER INTO VOLUNTARY ARRANGEMENTS WITH DATA CLECS TO PROVIDE PACKAGED VOICE AND DATA SERVICES TO RESIDENTIAL CONSUMERS IN VERIZON'S SERVICE TERRITORY.

15. As discussed above, UNE-P is a particularly attractive strategy for new entrants because it allows a CLEC to compete without having to collocate in each individual ILEC central office. Rather, the UNE-P CLEC obtains all the necessary elements to provide service from the ILEC.

16. However, the FCC eliminated DSLAMs from the list of network elements subject to unbundling.⁸ That decision means that AT&T and other UNE-P carriers, such as WorldCom, could offer a combined voice and data services offering only if they had the collocation arrangements and deployed DSLAMs needed to provide a combined voice and data service

⁷ See Press Release, State of New York Public Service Commission "NYPSC Decisions Enhance Competition in the High-Speed Data Services Market" (Sept. 20, 2000).

⁸ *UNE Remand Order* ¶¶ 302-06.

via UNE-P, or were able to enter into a relationship with a competitive carrier that had these arrangements and facilities. Today, neither AT&T nor any other UNE-P carrier has either the facilities or expertise to provide high-speed data services using digital subscriber line (“DSL”) technology to residential consumers.

17. In order to obtain access to the necessary DSLAMs to provide UNE-P, AT&T would need to establish arrangements with facilities-based data CLECs, which have used their resources to deploy the necessary data equipment in Verizon’s central offices; have entered into collocation arrangements with the ILECs; and have substantial DSL expertise.
18. There are no practical alternatives in the near term. It would take a substantial amount of time and resources for AT&T to replicate all the collocation arrangements that viable data CLECs have in place and develop the necessary expertise. Not only would competition be delayed for this period of time, but the prospect of customer choice among providers would be diminished, since Verizon would take advantage of the delay to lock in as many customers as possible.
19. It is also less economically efficient for AT&T to construct the facilities necessary for collocation than for a data CLEC. Each voice CLEC, including AT&T, has only a small percentage of local UNE-P-based customers, and those customers are generally spread out among numerous geographic areas. (Indeed, the very purpose of UNE-P competition is to allow such widespread competition). Thus, AT&T would have to deploy assets in thousands of central offices. AT&T’s data CLEC suppliers, however, can provide service to many

different voice CLECs, as well as Verizon's own voice customers, and thus it is more economically worthwhile for them to enter into the necessary collocation arrangements.

20. Finally, it is inefficient and costly for AT&T to enter into a voluntary arrangement with a carrier that resells DSL services of either Verizon or a facilities-based data CLEC. Unlike line splitting arrangements with facilities-based DSL providers of residential services, arrangement with a carrier that resells DSL service would require AT&T to provide voice and data service over two loops, not one. Indeed, only Verizon has the current capability of providing voice and data service over a single loop. In contrast, CLECs cannot typically resell packaged voice and data services to other carriers over a single loop at any price. If AT&T were to enter into an arrangement with such a DSL reseller, it would use only the low frequency portion of its UNE-P loop to provide voice service, and would need to use the high-frequency portion of the other loop to provide the reseller's DSL service to the same customer. The "two-loop" alternative, by contrast, is competitively unacceptable because it would force AT&T to incur significantly greater costs to provide both voice and data services to customers, thus denying AT&T's customers the same efficiencies as those available to Verizon's voice customers receiving the same services over a single loop. Establishing a voluntary arrangement with a reseller of DSL services is also competitively unacceptable to AT&T, because unlike a facilities-based DSL carrier, the reseller cannot differentiate its services from those provided by the underlying carrier, or control technical and operational characteristics of the service to meet particular needs.

IV. THE MERGER REMOVES ONE OF THE FEW NEAR-TERM ALTERNATIVES AVAILABLE TO AT&T.

21. The Merger significantly impairs AT&T's ability to enter into arrangements with facilities-based data CLECs to provide a competitive alternative to Verizon's bundled consumer offerings, and thereby impedes AT&T's ability to offer meaningful competition to Verizon's local service. The opportunity to forge such business alliances depends in part on the number of independent (non-ILEC-affiliated) facilities-based data CLECs. If there are insufficient CLEC suppliers of consumer-based DSL services available, then the prospects for successful arrangements between voice CLECs and data CLECs will diminish, and residential competition for bundled offers will not develop.
22. Based on publicly available data, only three data CLECs appear to have deployed DSL equipment and have collocated, or have had plans to collocate, the necessary DSL equipment on anything approaching a mass-market basis.⁹
23. NorthPoint, Covad, and Rhythms were also the primary participants in the line sharing pilot recently conducted in New York. The participation in these trials, and the resulting

⁹ Those three are NorthPoint (with collocation arrangements in 1,700 central offices and 62,000 subscribers), Covad (with collocation arrangements in 35 states and 138,000 DSL Subscribers), and Rhythms NetConnections (with 31,000 DSL Subscribers and a projected 2,150 collocation arrangements by year-end). Together, NorthPoint, Covad, and Rhythms accounted for roughly 90% of all competitive DSL lines in service at the end of 1999. See "Strange DSL Bedfellows: Verizon, NorthPoint Unite," *Broadband Networking News* (Aug. 15, 2000); "Getting a line on the 'Net,'" *The Denver Post*, E-01 (Aug. 14, 2000); "On My Own and Loving It, Says Rhythms," *Communications Today* (Sept. 15, 2000); "The State of Competition in the U.S. Local Telecommunications Marketplace," Annual Report of the Association for Local Telecommunications Services, at 7 & Graphic N (February 2000).

knowledge of and familiarity with the technical and procedural processes involved in line sharing, makes these three providers uniquely prepared and more valuable DSL suppliers.

24. AT&T's ability to strike appropriate agreements with any one of these three "DLECs" to establish a residential voice/data offering is enhanced by the market presence of the other two. To the extent that NorthPoint is eliminated as a potential supplier of a residential DSL service by virtue of this merger, the chance of formulating mutually acceptable and reasonable arrangements with either of the others is reduced.¹⁰ The lack of availability of viable DSL suppliers for residential offerings raises the costs of such an arrangement.

25. Prior to the Merger announcement, AT&T viewed NorthPoint as a viable DSL provider of residential services, due to its current and planned footprint. At the end of 1999, NorthPoint provided service in all the major Bell Atlantic cities (Baltimore, Boston, New York, Philadelphia, Pittsburgh, and Washington, DC) and many of the major GTE cities, including Tampa, Los Angeles, and Houston.¹¹ NorthPoint also had announced expansion plans for 2000 that include many of the medium-sized cities served by Bell Atlantic, and would reach more than 80% of the small-medium-sized businesses in 60 markets by year-end.¹² Analysts

¹⁰ AT&T's lack of potential partners has been even further compounded by the announcement that Covad appears to be aligning itself with SBC, and thus may be eliminated as a potential partner. Covad recently announced that it has agreed to drop its litigation against SBC, has been promised hundreds of millions of dollars in resale revenue by SBC, and has accepted \$150 million of SBC investment. News Release, SBC Communications, Inc., Covad and SBC to Deliver Broadband Networks (Sept. 11, 2000), *available at* http://www.sbc.com/News_Center/Article.

¹¹ See Ing Barings Report "xDSL-Data CLECs, Unleashing Bandwidth in the Local Loop" (June 8, 2000) (a copy of this report, in relevant part, is attached hereto).

¹² *Id.* at 29.

had predicted that NorthPoint would have 1,700 central office collocation arrangements by year-end 2000.¹³

26. AT&T's concern that data CLECs' affiliations with ILECs will lessen the chances of establishing voluntary arrangements is not theoretical, but is borne out by experience. At the New York Collaborative, VAD did not clearly indicate whether it would enter into such arrangements with voice CLECs. By contrast, AT&T has had extensive discussions with all three major data CLECs. Any loss of NorthPoint as a potential provider of residential DSL services will inevitably diminish AT&T's ability to compete against the voice and data packaged service that Verizon and VAD will offer to consumers.¹⁴

27. Any business plan for a residential voice/data offering generally calls for the CLEC to establish the customer relationship, and remain the point of contact for ordering, provisioning and other aspects of customer service. However, because the DSL carrier supplies the underlying facilities used to provide a critical portion of the service, the CLEC needs to coordinate closely with that DSL carrier.

¹³ *Id.*

¹⁴ Although the FCC has imposed a requirement that Verizon offer advanced services through a "separate affiliate," in fact Verizon is free to market the data services nominally provided by VAD, and VAD is free to market the voice services provided by Verizon. *See Memorandum Opinion and Order, Application of GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee, for Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License, CC Docket No. 98-184, FCC 00-221, ¶ 263 (rel. June 16, 2000). See also 47 U.S.C. §§ 272(g)(1),(2) (allowing joint marketing).*

28. In order to submit customer orders and enable ongoing customer service, the CLEC must establish OSS interfaces with the DSL provider. Such interfaces are similar to those between ILECs and CLECs. The OSS must be able to allow a CLEC to offer a bundled service offering to consumers, whether the service uses networks owned by the CLEC, ILEC, DSL provider, or Internet access provider.

29. To accomplish these goals, OSS interfaces must handle a broad range of interactions between the CLEC and the data provider. They must allow the CLEC to schedule and arrange for an underlying DSL provider to undertake the necessary work to carry out customer orders for combined voice/data offerings, including allowing the CLEC access to the database to schedule that work; and they must support billing because the CLEC will collect the charges for the entire package from the end-user customer and then remit to the DSL provider an agreed-upon portion of that charge. In addition, OSS interfaces must support maintenance and repair issues that arise.

30. Finally, the OSS must be able to coordinate any necessary customer premises equipment (“CPE”) installation. While the CLEC generally controls the customer relationship, the DSL provider will install the CPE. The OSS must be able to allow the CLEC to request and schedule these installations.

31. As the Commission repeatedly has recognized, while properly functioning OSS are “critical” to local residential competition, developing even a single interface capable of supporting pre-

ordering, ordering, maintenance and repair and billing activities is a difficult task.¹⁵ Because there are no standard OSS consumer interfaces in this context, the CLEC would likely need to develop a new interface for each DSL supplier.

32. Many difficulties other than OSS also would arise if AT&T sought to provide a combined voice/data residential offering with multiple DSL providers. For example, not all DSL providers use the same CPE, and some DSL providers may not be suitable voice/data partners for residential service because their CPE is not compatible with AT&T's "voice over DSL" approach. Further, when AT&T collocates voice facilities and leases only the loop from the ILEC, it needs to connect to the DSL providers' facilities, but many DSL providers do not yet employ an architecture that permits such connections. Finally, many DSL providers are unwilling to permit such connections because they consume scarce collocation space in the DSL providers' cage.

33. Thus, for CLECs, like AT&T, that aspire to offer voice services to residential customers at the mass market level in competition with the ILECs, DSL providers that currently have national footprints -- in other words, Rhythms, NorthPoint and Covad -- are currently the most, and in some instances the only, suitable, cost-effective partners.

34. For the above reasons, the proposed Merger poses a significant threat to the ability of AT&T and other CLECs to compete effectively to provide local residential voice services.

¹⁵ *In the Matter of Application of Ameritech Michigan Pursuant to Section 271 of the Communications Act of 1934, as amended, To Provide In-Region, InterLATA Services In Michigan*, 12 FCC Rcd 20543 ¶¶ 130, 134-43 (1997).

I declare under penalty of perjury that the foregoing is true and correct.



Stephen G. Huels

Dated: this 2 day of October, 2000

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xDSL – DATA CLECS

UNLEASHING BANDWIDTH IN THE LOCAL LOOP

Symbol: COVD, RTHM, NPNT

BUY

Sector: Telecom

- Digital subscriber line (DSL) technology offers high-bandwidth always-on connections with transmission speeds comparable to T-1 fiber lines providing data rate speeds of up to 1.5Mbps and potentially even faster, with continued advancements in DSL technology. DSL service does not interfere with traditional voice service; it allows for symmetric and asymmetric transmission speeds and provides simultaneous use of voice and data services from a single loop.
- The capacity bottleneck that plagues the speed of data transmission on the copper lines of the local loop is effectively removed for many applications with DSL, making it an optimal solution in many markets.
- DSL technology and the infrastructure of collocated switching electronics makes it possible to leverage the incumbent telephone company's vast network of twisted copper-pair lines that comprise the local loop. Leveraging the network provides for rapid deployment and economic advantages over other technologies – including wireless, cable and satellite. Moreover, capital allocation for the DSL network build is success-based providing favorable economics.

SUMMARY OF RECOMMENDATIONS

Opinion	Risk profile	OPINION CLASS				ISSUE DESCRIPTION AND PRICING						
		Short term	Total return	Current income	Coupon (%)	Issue	Maturity	Amount (US\$m)	Ratings	Bid price	YTW (%)	Spread (bp)
Covad												
Buy	Speculative		x	12.500		Sr nts	15-Feb-09	215.0	B3/B-	95	12.91	684
Buy	Speculative		x	12.000		Sr nts	15-Dec-10	425.0	B3/B-	96	13.28	714
Buy	Speculative		x	13.500		Sr disc nts	15-Mar-08	259.8	B3/B-	63	15.14	897
NorthPoint												
Buy	Speculative		x	12.875		Sr nts	15-Dec-10	400	Caa1/CCC	86	15.72	965
Rhythms												
Buy	Speculative		x	12.750		Sr nts	15-Apr-09	325.0	B3/CCC+	83	16.45	1,034
Buy	Speculative		x	13.500		Sr disc nts	15-May-08	289.0	B3/CCC+	44	20.64	1,448
Buy	Speculative		x	14.000		Sr nts	15-Feb-10	300.0	B3/CCC+	84	17.72	1,158

Indicative price as of 5 June
Source: ING Barings

Steven A Solazzo
New York
8 June 2000

(1 212) 409 7553
steve.solazzo@ing-barings.com
www.ingbarings.com

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NORTHPOINT COMMUNICATIONS

Figure 17 BONDS OUTSTANDING

	Amount (US\$m)	Coupon	Final maturity	Ratings	Bid	YTW (%)	Spread over UST (bp)
Sr nts	400	12.875	15-Dec-10	Caa1/CCC	86	15.72	965

*Indicative price as of 5 June
Source: ING Barings*

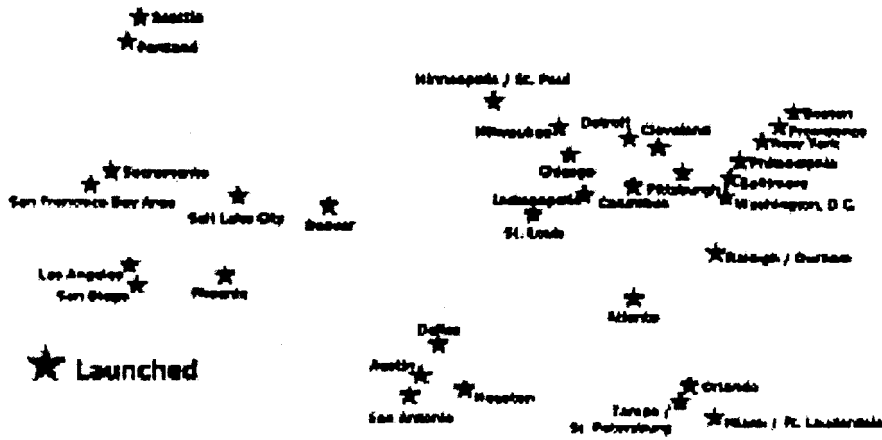
NorthPoint Communications is a leading nationwide provider of broadband high-speed local data transport services using DSL technology. The company offers a wide range of price-performance service options and provides their services on a wholesale basis to ISPs, long distance companies, network service providers and local telephone companies who market the broadband services to their customer bases. Providing services on a wholesale basis allows for a quickened nationwide presence and minimizes marketing expenses. NorthPoint's original focus was on the small/medium sized business markets, however with the recent regulatory changes providing for line sharing and the establishment of the G.lite, standard, NorthPoint has included low-cost consumer grade products to expanded its market focus to serve residential users. NorthPoint was founded by six former MFS/WorldCom executives including Michael Malaga CEO who was the director of strategic development for xDSL at MFS/WorldCom. At the end of 1Q00 NorthPoint served 37 markets in 81 MSAs with a DSL network that consisted of 1,260 operable central office collocates and installed a total of 41,300 DSL high-speed access lines.

NETWORK EXPANSION

With a focus on targeting markets with the highest density of small/medium sized businesses NorthPoint anticipates a network buildout that would encompass 5.5m businesses, in excess of 80% of the small/medium-sized businesses in 60 markets and 110 MSAs by year-end 2000. With this robust expansion plan we anticipate that the company will have 1,700 central office collocates by year-end 2000. NorthPoint has also introduced OSS 2000, an automated electronic bonding initiative that provides seamless order entry between the ILECs (three currently), the company, and an ISP network service provider. This initiative should minimize order-processing costs and line-provisioning times. NorthPoint, in conjunction with Versatel Telecom International have announced plans to form a new company, VersaPoint to deliver DSL services across the European market. The capacity bottleneck in Europe is significant and there are few alternatives for last mile access. Versatel and NorthPoint will each hold a 50% stake.

Figure 18

NORTHPOINT NETWORK



60 MSAs (33 Markets) currently, 110 MSAs (60 markets) by the end of 2000

Source: Company reports

Figure 19

NORTHPOINT MARKET OVERVIEW

West	Central	East
Los Angeles ¹	Austin	Atlanta
Phoenix	Chicago	Baltimore
Portland	Cleveland	Boston
Sacramento	Columbus	Miami/Fort Lauderdale
San Diego	Dallas	New York ³
San Francisco	Bay Area ²	Denver Orlando
Seattle	Detroit	Philadelphia
	Houston	Providence
	Indianapolis	Raleigh-Durham
	Kansas City	Tampa-St Petersburg
	Minneapolis	Washington, DC ⁴
	Milwaukee	
	Pittsburgh	
	San Antonio	
	St Louis	

¹ Includes Orange County

² Includes San Francisco, Oakland and San Jose

³ Includes northern New Jersey

⁴ Includes Virginia and parts of Maryland

Source: Company reports

STRATEGIC PARTNERS AND DISTRIBUTION AGREEMENTS

To enhance marketing, technical and distribution capabilities NorthPoint has formed strategic and commercial relationships, many of which include equity investments. These relationships have been formed with a variety of ISPs, CLECs, content providers and retailers. Among those are Microsoft, Tandy, each with investments of US\$30m and US\$20m respectively. In addition, the company anticipates an effective marketing campaign at Radio Shack stores for customers to trial the service. Other equity investors include Verio, ICG Communications, Excite @Home, Cable & Wireless and Concentric Network. Taken together these partners hold equity investments totalling in excess of US\$80m and many have also agreed to purchase a significant number of DSL lines, perhaps, as many as 100,000 over the course of several years. In an effort to make NorthPoint's services more useful, and perhaps indispensable for its customers the company has entered into content provisioning agreements. For example, NorthPoint has agreements

in which certain content providers can store data at the NorthPoint node in an attempt to bring content closer to the edge of the network and enhance the stickiness of its customer base. In addition to its strategic equity partners NorthPoint's equity holders include the Carlyle Group with a 16% ownership interest and Vulcan Ventures with an 8.4% stake.

LIQUIDITY

At the end of 1Q00, NorthPoint had a cash equivalent balance of US\$412m and US\$165m in available bank debt which consists of a US\$55m revolver and a US\$110m term loan. The company has fully drawn on a separate US\$85m term loan. With these resources NorthPoint's business plan is funded for network construction that will serve 60 markets, anticipated for year-end 2000. The recent US\$400m high yield offering provided needed capital for the current network expansion plan. However, we anticipate that the company may seek to access the capital markets again in early 2001. We believe the company will continue generating EBITDA losses for the next few years as it continues its network expansion.

Figure 20 CAPITALIZATION AT 31 MARCH (US\$000)

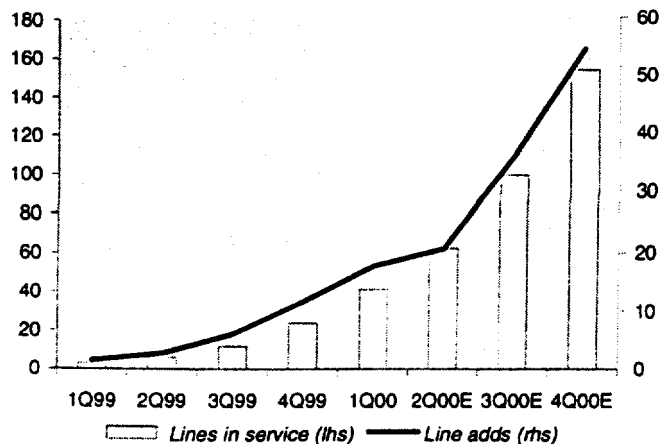
12.875% senior notes due 2010	400,000	Stock symbol	NPNT
Term loan	85,000	Shares outstanding (000)	131,990
Other debt	2,750	Price per share (1 June, US\$)	17.00
Total debt	487,750	Equity market capitalization	2,243,830
		Plus debt	487,750
Preferred stock	-	Plus preferred stock	-
Shareholders' equity	230,498	Less cash	412,113
		TEV	2,319,467
Book capitalization	718,248		
Cash	412,113		

Source: Company data and ING Barings

METRICS

NorthPoint had 41,300 total access lines deployed at the end of 1Q00 and had 1,260 operable central office collocates. With the progress in its network build and execution of its business plan, we look for it to have approximately 150,000 lines in service with 1,700 central office collocates in 60 markets by year-end 2000. The company's plan calls for a lead-time of EBITDA break-even of approximately 24 months in a new market and has turned EBITDA positive in one market (San Francisco) within 17 months.

Figure 21 NORTHPOINT LINE SUMMARY (000)



Source: Company reports, ING Barings estimates

PRODUCTS AND SERVICES

NorthPoint's original business plan included a focus on the small/medium-sized business markets. To that end the company deployed (symmetric) SDSL technology in which data speeds to and from the user are identical. With the adoption of the G.Lite standard and the FCC mandate regarding line sharing, however, the company expanded its service offerings and target markets to include a residential-grade speed. To accommodate this, it has deployed ADSL services, as this is optimal for the consumer market and because ADSL technology is necessary for line sharing. NorthPoint also resells high-capacity fiber transport backhaul services between the NorthPoint network node and the service-provider POP.

Figure 22 NORTHPOINT SERVICE OFFERINGS

Service	Downstream (Kbps)	Upstream (Kbps)	Wholesale price/mth (US\$)	Maximum range (000ft)	Use/target market
DSL 144	144	144	75	35.0	ISDN substitute.
DSL 160	160	160	75	24.0	Always on e-mail and Web browsing solution for individuals.
DSL 200	200	200	90	22.9	E-mail and Web usage for small businesses of less than four employees.
DSL 416	416	416	125	18.0	E-mail and higher bandwidth Internet usage for small businesses of less than 10 employees.
DSL 784	784	784	165	135.0	RLAN access, Web surfing for businesses with under 25 employees; can support high bandwidth intensive e-commerce and video conferencing applications.
DSL 1.04	1.04 Mbps	1.04 Mbps	199	12.4	RLAN access, Web surfing for medium-size businesses; supports large file transfers and Web hosting.
DSL T-1	1.54 Mbps	1.54 Mbps	250	10.0	T-1 performance.

Source: Company reports

Figure 23

NORTHPOLE COMMUNICATIONS GROUP QUARTERLY INCOME STATEMENT (US\$000)

FYE 31 December	1Q99	2Q99	3Q99	4Q99	99	1Q00	2Q00F	3Q00E	4Q00E	00E	01F	02F
Broadband xDSL service	715	1,285	2,402	4,561	8,963	7,069	10,310	13,415	17,391	48,184	167,409	332,622
Residential xDSL service	0	0	0	0	0	517	1,276	2,483	4,398	8,674	46,342	96,217
WAN/IP applications	0	0	0	0	0	0	0	0	0	0	0	0
Backbone services	284	395	637	900	2,216	2,200	2,860	3,146	3,461	11,667	20,067	40,133
Non-recurring installation	285	824	2,695	6,158	9,962	10,185	10,350	14,250	16,250	51,035	67,200	53,125
Total revenue	1,283	2,504	5,734	11,619	21,140	19,971	24,795	33,295	41,500	119,560	301,017	522,097
YoY growth (%)	3565.7	1856.3	2319.4	2088.1	2170.7	1456.6	890.2	480.7	257.2	465.6	151.8	73.4
Cost of goods sold	3,932	7,801	13,547	25,074	50,354	33,538	40,469	47,777	52,739	174,523	264,881	347,100
% of total revenue	306.5	311.5	236.3	215.8	238.2	167.9	163.2	143.5	127.1	146.0	88.0	66.5
Gross margin (%)	-206.5	-211.5	-136.3	-115.8	-138.2	-67.9	-63.2	-43.5	-27.1	-46.0	12.0	33.5
Selling, general, & administrative	14,379	23,914	34,203	45,402	117,898	48,446	55,190	57,730	59,930	221,296	242,807	256,603
% of total revenue	1120.7	955.0	596.5	390.8	557.7	242.6	222.6	173.4	144.4	185.1	80.7	49.1
Total expenses	18,311	31,715	47,750	70,476	168,252	81,984	95,658	105,507	112,669	395,819	507,688	603,703
Operating cash flow [EBITDA]	(17,028)	(29,211)	(42,016)	(58,857)	(147,112)	(62,013)	(70,863)	(72,213)	(71,169)	(276,258)	(206,671)	(81,606)
Operating cash flow margin (%)	-1327.2	-1166.6	-732.8	-506.6	-695.9	-310.5	-285.8	-216.9	-171.5	-231.1	-68.7	-15.6
YoY growth (%)	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M
Depreciation and amortization	1,387	2,813	5,226	6,481	15,907	10,743	12,856	15,606	17,731	56,936	59,000	79,000
% of total revenue	108.1	112.3	91.1	55.8	75.2	53.8	51.8	46.9	42.7	47.6	19.6	15.1
Operating income	(18,415)	(32,024)	(47,242)	(65,338)	(163,019)	(72,756)	(83,719)	(87,819)	(88,900)	(333,194)	(265,671)	(160,606)
Operating margin (%)	-1435.3	-1278.9	-823.9	-562.3	-771.1	-364.3	-337.6	-263.8	-214.2	-278.7	-88.3	-30.8
Interest expense	(3,583)	(7,689)	(2,554)	(13,757)	(27,583)	(11,010)	(17,344)	(17,344)	(17,344)	(63,041)	(88,091)	(135,490)
Interest and other income	238	3,026	4,709	4,337	12,310	5,038	4,499	2,786	1,179	13,501	155	0
Amortization of deferred comp	(1,592)	(1,215)	(1,404)	(1,195)	(5,406)	(1,211)	(1,400)	(1,400)	(1,400)	(5,411)	(5,600)	(5,600)
Loss before income tax	(23,352)	(37,902)	(46,491)	(75,953)	(183,698)	(79,939)	(97,964)	(103,777)	(106,465)	(388,145)	(359,207)	(301,697)
Tax expense	0	0	0	0	0	0	0	0	0	0	0	0
Net income	(23,352)	(37,902)	(46,491)	(75,953)	(183,698)	(79,939)	(97,964)	(103,777)	(106,465)	(388,145)	(359,207)	(301,697)
Preferred stock dividend	0	0	0	0	0	0	0	0	0	0	0	0
Net income to common	(23,352)	(37,902)	(46,491)	(75,953)	(183,698)	(79,939)	(97,964)	(103,777)	(106,465)	(388,145)	(359,207)	(301,697)
YoY growth (%)	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M	N/M
Weighted shares outstanding	24,908	86,114	124,487	126,068	90,765	129,010	129,760	130,510	131,260	130,135	130,135	130,135
Net income (loss) per share	(0.94)	(0.44)	(0.37)	(0.60)	(2.02)	(0.62)	(0.75)	(0.80)	(0.81)	(2.98)	(2.76)	(2.32)
Cash and equivalents	52,908	402,752	303,376	210,053	210,053	431,636	288,150	157,562	31,042	31,042	0	0
Total debt & preferred stock	52,738	55,201	50,479	85,000	85,000	485,000	485,000	485,000	485,000	85,000	857,094	1,187,210
Capital expenditures	26,967	20,943	53,400	95,507	196,817	95,000	65,000	45,000	40,000	245,000	100,000	100,000

Source: Company reports, ING Barings estimates

Figure 24 NORTHPOINT COMMUNICATIONS GROUP QUARTERLY PERFORMANCE STATISTICS

FYE 31 December	1Q99	2Q99	3Q99	4Q99	99	1Q00	2Q00F	3Q00E	4Q00E	00E	01F	02F
NETWORK FOOTPRINT												
Addressable lines (000)												
Business	3,064	4,995	7,326	11,297	11,297	13,860	14,300	16,500	18,700	18,700	18,700	19,635
Residential	6,127	9,990	14,652	22,594	22,594	27,720	28,600	33,000	37,400	37,400	37,400	39,270
Total lines	9,200	15,000	22,000	31,000	33,891	36,000	42,900	49,500	56,100	56,100	56,100	58,905
Collocates	250	438	683	1,027	1,027	1,260	1,300	1,500	1,700	1,700	1,700	1,700
Lines per collocate	37	34	32	30	33	29	33	33	33	33	33	35
DSL-capable addressable lines	0	0	0	0	0	0	0	0	0	0	0	0
Businesses	536	874	1,282	1,977	1,977	2,426	2,503	2,888	3,273	3,273	3,273	3,436
Residential	4,289	6,993	10,256	15,816	15,816	19,404	20,020	23,100	26,180	26,180	26,180	27,489
Total DSL addressable market	4,825	7,867	11,538	17,793	17,793	21,830	22,523	25,988	29,453	29,453	29,453	30,925
DSL-capable (%)	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Estimated lines per avg business	4	4	4	4	4	4	4	4	4	4	4	4
Estimated RLAN lines per Avg business	3	3	3	3	3	3	3	3	3	3	3	3
DSL capable addressable												
Businesses	536	874	1,282	1,977	1,977	2,426	2,503	2,888	3,273	3,273	3,273	3,436
RLAN	1,608	2,622	3,846	5,931	5,931	7,277	7,508	8,663	9,818	9,818	9,818	10,308
Total businesses	2,145	3,497	5,128	7,908	7,908	9,702	10,010	11,550	13,090	13,090	13,090	13,745
Residential lines	2,681	4,371	6,410	9,885	15,816	12,128	12,513	14,438	16,363	16,363	16,363	17,181
Total addressable lines	4,825	7,867	11,538	17,793	23,724	21,830	22,523	25,988	29,453	29,453	29,453	30,925
LINE DEPLOYMENT BREAKOUT												
DSL access lines in service	2,900	5,700	11,800	23,500	23,500	41,300	62,000	100,000	150,000	150,000	450,000	800,000
Overall penetration (%)	0.9	0.1	0.1	0.2	0.1	0.2	0.3	0.4	0.6	0.4	1.1	2.7
Percent business (%)	100.0	100.0	100.0	100.0	100.0	80.6	73.7	68.5	64.0	64.0	61.3	60.8
Sequential growth (%)	107	97	107	99	1,579	76	50	61	50	538	200	78
Lines added	1,500	2,800	6,100	11,700	22,100	17,800	20,700	38,000	50,000	126,500	300,000	350,000
BUSINESS/RESIDENTIAL LINE BREAKOUT												
Business	2,900	5,700	11,800	23,500	23,500	33,290	45,710	68,510	96,010	96,010	276,010	486,010
Residential	0	0	0	0	0	8,010	16,290	31,490	53,990	53,990	173,990	313,990
% Residential	0	0	0	0	0	19	26	31	36	36	39	39
Monthly business DSL rev/line	123	115	103	94	101	90	87	78	70	78	75	73
Monthly residential DSL rev/line	0	0	40	40	N/M	43	35	35	34	35	34	33
Monthly unbundled loop costs	22	22	22	22	22	22	22	22	21	21	18	17
Monthly churn (%)	0	0	0	0	0	0	0	0	0	0	1	1
Install rev per gross addition	190	294	442	526	451	410	500	375	325	381	200	125
Cumulative funding requirement	0	0	0	0	0	0	0	0	0	.0	372,094	702,210

Source: Company reports, ING Barings estimates

APPENDIX B

REDACTED